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Viewing cable 08SANJOSE969, HISTORICAL VISIT OF CHINESE PRESIDENT HU KICKS OFF

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Reference ID	Created	Released	Classification	Origin
08SANJOSE969	2008-12-12 02:12	2011-08-30 01:44	CONFIDENTIAL	Embassy San Jose

Appears in these articles:

<http://www.nacion.com/2011-03-04/Investigacion/NotasDestacadas/Investigacion2697549.aspx>
<http://www.nacion.com/2011-03-04/Investigacion/NotasSecundarias/Investigacion2697564.aspx>
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SUBJECT: HISTORICAL VISIT OF CHINESE PRESIDENT HU KICKS OFF
FTA TALKS, SEALS 11 ACCORDS

REF: A. SAN JOSE 133

[B](#). 07 SAN JOSE 1106

[C](#). 07 SAN JOSE 1488

[D](#). SAN JOSE 540

[E](#). BEIJING 04253

Classified By: DCM Peter M. Brennan for reason 1.4(d).

SUMMARY

[1](#). (SBU) "Chinese president (arrives) like Santa Claus with FTA, balls, and bicycles" read one headline recapping the historical visit of President Hu Jintao to San Jose November 16-17. Hu's rock-star-like reception included major street closures and a holiday for most government employees who work downtown, ensuring smooth travel and added security for Hu and his 184-member delegation. The major significance of the event was the "official kick-off" of Sino-Costa Rican FTA negotiations (to begin in earnest in 2009), wherein Chile will also provide technical assistance to Costa Rica (septel). Officials signed a total of 11 pre-drafted cooperative accords addressing, among other issues: a joint venture to modernize the GOCR's RECOPE refinery; USD 10 million in additional funds for the new soccer stadium that China will build (Ref A); as much as USD 80 million in bank lines of credit; creation of a "Confucian Institute" to teach Mandarin at the national university; and a sports equipment donation for underprivileged youth. President Arias invited Chinese companies to bid on a new concession for Costa Rica's major port in Limon. In addition, the Costa Rican private sector signed cooperative agreements with Chinese counterparts. China's human-rights record and Tibet were intentionally absent from discussions. END SUMMARY.

FIRST TIME ON CENTRAL AMERICAN SOIL

[2](#). (SBU) Hu's visit reciprocated President Arias' October 2007 China trip which followed GOCR re-establishment diplomatic relations with the PRC on June 1, 2007 (Ref B). It also marked the first time that a Chinese president "set foot on Central American soil" according to FonMin Bruno Stagno, who described the 17-month old bilateral relationship as "historic and symbolic" in his welcoming remarks. Stagno noted that Hu's visit came on the heels of the G20 Summit in Washington, and he extolled China's ability to help the world through the current financial crisis and to aid developing countries. Stagno used the visit to publicly reiterate the GOCR's aspiration for APEC membership once the moratorium is lifted in 2010 (Ref C), as part of the administration's National Development Plan strategy to increase ties with Asia, especially with China and India. Stagno proudly added that "not every country that has ties with China has received a visit of this caliber."

POMP, CIRCUMSTANCE, AND ARMS WIDE OPEN

[3](#). (U) Hu's agenda included a one-on-one with President Arias, the agreement signing ceremony, and a visit with legislators at the National Assembly. Aside from the usual fanfare (such as schoolchildren cheering Hu's arrival at Arias' office), the visit generated controversy for major street closures and a one-day holiday for government employees in downtown offices, and drew criticism from some legislators who noted the disparity in treatment of Panama's

Torrijos and Chile's Bachelet during recent state visits. Minister of Public Security, Janina Del Vecchio said the measures were requested by the Chinese as reciprocal treatment (stemming from Arias' China trip) and that the closures were necessary to prevent traffic chaos.

"GREAT FRUITS" AND A POLITICAL MESSAGE

¶4. (U) Hu's remarks touched on bonds of friendship, trust and support for the (eventual) FTA. He noted that the re-establishment of diplomatic ties with the PRC had "borne great fruits (for Costa Rica) in just one year." The

official Chinese Embassy press statement declared that Costa Rica was a "relevant partner" in the region. It heralded the "gigantic steps" in cooperation and friendship between the two "developing countries" that shared the mission of "safeguarding world peace" and promoting joint development.

¶5. (C) In a November 20 briefing for U.S. and Canadian PolOffs, the MFA's Deputy Director of Foreign Policy Alejandro Solano told us that China's primary purpose for the visit was to send a political message to countries in the region that they, too, could receive great economic benefits if they recognized China. Timing may be running out to collect these benefits, he maintained, since the increased dialogue and commercial ties between China and Taiwan might resolve the intra-Chinese differences sooner than later. According to Solano, Chinese officials believe that Nicaragua, which they thought would be first in Central America to re-establish ties with the PRC, now could be the very last. Because of the GON's heavy dependence on Taiwanese assistance (especially in light of EU aid reductions), Nicaragua could not even afford a short gap in aid flows while switching recognition to China.

SINO-GOCR FTA NEGOTIATIONS IN JANUARY . . .

¶6. (U) Arias and Hu utilized the visit to announce the "kick-off" of negotiations on the proposed Chinese-Costa Rican FTA, after a year of exploratory talks, even though the first round will actually take place beginning January 19, 2009, in San Jose. Chinese Ambassador Wang Xiaoyuan told the press that, based on China's experience with other FTAs, his side expected negotiations to last "a year or so." Minister of Foreign Trade Marco Vinicio Ruiz announced Costa Rica's intent to finish the FTA by 2010, before the end of Arias administration. Arias himself told reporters he hoped that it would not take four-and-a-half years for the China FTA to be approved by the National Assembly, referring to the long, torturous battle to pass, ratify and implement CAFTA-DR. Costa Rica expects to see an 11 percent increase in duty-free exports to China under the FTA, especially in coffee, bananas and beef, with improved access to China's 1.3 billion-person market.

¶7. (SBU) Just after Hu's visit, Minister Ruiz told the Ambassador that President Hu's visit went very well and was another important step in "getting Costa Rica to look more towards Asia" for its economic future. This remained very important to President Arias, and, according to Ruiz, had fueled the Arias administration's opening of relations with China in 2007. With the GOCR stymied by previous attempts to foster deeper relations in Asia via Japan and South Korea, Ruiz offered that Arias' second presidency would be remembered for his engagement with China. The Costa Rican public was looking for something "exciting" after the protracted CAFTA-DR battle, and the continued opening with China might satisfy that interest, according to Ruiz.

. . . BUT ADJUST THOSE EXPECTATIONS

¶8. (SBU) Ruiz acknowledged, however, that Costa Rican expectations might have to be "adjusted" to meet reality. Relations with China would continue to develop, but not necessarily in a spectacular fashion. Based on the Costa Rican experience with even non-controversial trade agreements (such as with Panama), ratification of an FTA with China likely would take longer than expected. Separately, the MFA's Solano noted opposition to a Sino-Costa Rican FTA from some domestic sectors, including packaging, container and toy importers/manufacturers. COMEX, he added, would have to decide which sectors to "leave out".

¶9. (C) Solano acknowledged that a Chinese FTA could indirectly impact Costa Rica's other FTA partners, such as the U.S. Canada, and Chile. The GOCR might re-examine rules of origin requirements, for example, in order to attract more Chinese FDI via products assembled in Costa Rica that might have preferred entry into the CAFTA or Chilean markets (Ref D). COMEX would have to consult with other FTA partners during the negotiation process to be sure that any adverse effects or implications were taken into account. Solano said that Chile would provide technical training and

"tips" (based on Chile's own negotiating experience with the Chinese) to GOCR negotiators, similar to the Chilean advice provided to the GOCR during the current FTA negotiations with the EU.

ELEVEN ACCORDS SIGNED; OIL AND CREDIT TOP LIST

¶10. (U) In addition to the FTA negotiation agreement, the GOCR signed 10 more accords with the PRC during Hu's visit. Principal among them was a deal on behalf of China's CNPC International Ltd. to modernize Costa Rica's RECOPE oil Refinery on the Caribbean. RECOPE sources tell us that the agreement would permit the creation of a 25-year joint venture to expand or build a new facility in Moin which would greatly increase production. Construction and equipment costs could amount to between \$800 million and \$1 billion, and Costa Rica would retain the option to purchase at the end of the contract term. The joint venture would undertake a feasibility study to determine the scope of construction, with the goal of building in a modular fashion that would facilitate future expansion. The joint venture would front 30 percent of costs, with the balance to be financed. Once begun, construction would probably take three years.

¶11. (SBU) China's National Development Bank extended a \$40 million line of credit to Costa Rica's Central Bank (Banco Nacional) and signed a cooperative financial agreement with the national Bank of Costa Rica. Though the amount set aside for the Bank of Costa Rica was not specified in the agreement, the MFA's Solano confirmed that a similar \$40 million figure was under discussion. The funds would be available for recapitalization (to stabilize institutions against the global financial crisis).

¶12. (SBU) China donated 10,000 soccer balls and 1,000 mountain bikes for disadvantaged youth, which the GOCR's ceremonial First Lady's Office will distribute, according to Solano. Solano told us that this donation apparently resulted from an off-hand remark by President Arias himself, joked before the visit that perhaps the Chinese could bring balls and bikes as early Christmas presents. A staffer took him seriously and included those items in an official request to the PRC. The deals also created a Confucian Institute at the University of Costa Rica for the study of Mandarin and Chinese culture; confirmed Costa Rica's participation in the 2010 Shanghai Expo, established a Binational Business Council; launched relations between the GOCR Science and Technology Ministry and China's agricultural science and science academies; and covered additional economic and technological aid, including an additional \$10 million for the new stadium (Ref A).

THE PRIVATE SECTOR GETS ITS SHARE

¶13. (SBU) On the sidelines of the visit, members of the Costa Rican Chamber of Exporters (CADEXCO, Spanish acronym) signed pacts with representatives of the International Business Chamber of Wenzhou, the Sichuan Council for International Business Promotion, and the Guangxi Sub-Council for International Business Promotion, who were among the 60-100 (official numbers vary) Chinese business leaders who accompanied Hu. These pacts were the only agreements signed with Costa Rica's private sector and paved the way for Chinese technical assistance to Costa Rican companies and for opening commercial offices in China. CADEXCO Vice President Sergio Navas told us that the agreements represented a strategic move to work with regional Chinese markets as opposed to with Beijing and Shanghai alone. Given Mexican, Colombian, and Chilean competition in China, and the size of the Chinese market relative to Costa Rica, the regional agreements signal an emerging niche export strategy for the GOCR.

THE INTEL FACTOR

¶14. (SBU) Since INTEL comprises an overwhelming share of Costa Rican exports to China (96 percent INTEL; 4 percent everything else), the decisions of INTEL regarding future manufacturing weighs heavily on the Sino-Costa Rican trade

relationship. Navas fretted that the soon-to-be-opened INTEL production facilities in China may compromise INTEL's production in Costa Rica. In general terms, Navas saw three different horizons for the agreements:

-- Short Term: Chinese foreign direct assistance and cooperation in the form of technical assistance.

-- Medium Term: Working to expand the four percent of non-INTEL exports to China while maintaining the INTEL relationship in Costa Rica. Raw materials, foodstuffs, and tourism are the leading candidates to increase Costa Rican trade revenue with China.

-- Long Term: market analysis and research by Costa Rica on which Chinese consumer sectors to target. Size matters; coffee exporters note that if only two percent of China's population drank coffee at one-third the consumption of the average Costa Rican, the demand would use up all of Costa Rica's current annual production.

Navas believes that the commercial benefits will develop slowly, however, as do all relationships with China. Successful business with China depends on building trusting relationships over time.

HUMAN RIGHTS NOT ON THE AGENDA

¶15. (SBU) A reporter from TV Channel 42 raised the issue of China's human-rights record during the Arias/Hu joint press conference, and he questioned whether Nobel-Peace-Prize-Winner Arias broached the topic of human rights during their one-on-one. In a telling commentary on his administration's current focus with China, the president responded -- on camera -- that the two did not talk about human rights, and that he "took advantage of the opportunity to talk about things that are important and urgent to Costa Rica." FonMin Stagno subsequently backpedaled a little to explain that there were other fora (including the UN) and moments in which representatives of the two nations discussed "with much patience and much more time, topics such as human rights."

¶16. (C) Interestingly, human rights was the second topic that the MFA's Solano broached with us in his November 20

briefing. He said that the Chinese wanted to put Tibet on the agenda, but the GOCR declined due to difficulties for Arias given his still-close relationship with the Dalai Lama.

Solano fumbled a bit trying to rectify the GOCR's new "one China" policy and its continued interest in human rights issues in Tibet. When asked, Solano said that Arias had made no/no offers to help moderate or negotiate on Tibet. However, the GOCR would begin to take up human rights during bilateral political consultations with China planned over the next year. Solano indicated that perhaps some special administrative arrangement could be made for Tibet a-la Hong Kong, but for now the GOCR had to weigh political "equilibrium" (and economic benefits) against public sentiment (on human rights).

COMMENT

¶17. (C) Hu's visit demonstrated the GOCR's and Costa Rica's continuing exuberance for China more than a year after diplomatic relations were restored. Stagno's vision of the 21st Century as the "Chinese Century" shows that the Arias administration is continuing to look hopefully to Asia for its economic future; China has already begun the second-most export market for the Costa Rica. Though the PRC Embassy's press statement tried to portray the two countries as equal partners in a similar struggle along the path of development, officials involved in the day-to-day business of building relations, such as Minister Ruiz and Chinese interlocutors in Beijing (Ref E), are well aware that this new relationship is anything but equal. For now, trade with China has apparently trumped all other issues on the Costa Rican-Chinese agenda, a departure for the little country with the big love of human rights.

CIANCHETTE